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European Union: Shadow WTO Agricultural Domestic Support Notifications

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INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE

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Notices

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CONFERENCE PROGRAM

Improving WTO Transparency:
Shadow Domestic Support Notifications

Measurement Issues and Analysis for Eight Countries—
European Union, United States, Japan, Norway, Brazil, China, India and the Philippines
http://www.ifpri.org/events/conferences/2008/20080314.asp

Friday, March 14

9:00-10:00	An Overview of WTO Domestic Support Notifications
	David Orden
	Discussion Opener: Lars Brink
10:00-11:10	European Union
	Tim Josling and Alan Swinbank
	Discussion Opener: Erling Vårdal
Coffee Break	
11:30-12:40	United States
	David Blandford and David Orden
	Discussion Opener: Munisamy Gopinath
Lunch	
1:30-3:30	Brazil
	André Nassar and Diego Ures
	China
	Fuzhi Cheng
	Discussion Opener (both papers): Caesar Cororaton
Afternoon Break	
3:45-5:45	India
	Munisamy Gopinath
	Philippines
	Caesar Cororaton
	Discussion Opener (both papers): Yoshihisa Godo

Saturday, March 15

9:00-11:00	Japan
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	Norway
	Erling Vårdal
	Discussion Opener (both papers): André Nassar
11:15-12:30	Wrap Up

ABSTRACT

The notification of the level of domestic support to the World Trade Organization (WTO) is intended to reflect compliance with obligations entered into at the time of the Uruguay Round. WTO members have often been slow to provide notification of domestic support levels. This makes the process of notification less useful as an indicator of the degree to which changes in policy have or have not benefited the trade system as a whole and exporting countries in particular. The notification of domestic support in the E.U. illustrates the value of a measure that reflects current policies and can therefore act as a basis for negotiation of further disciplines where these are necessary.

The E.U. has made major changes in its Common Agricultural Policy (CAP) over the period since 1992 when the MacSharry reforms were implemented. Payments originally notified in the blue box (related to supply control) have over time been changed until in their present form they are unrelated to current production or price levels, and hence can satisfy the criteria for the green box. The E.U. has therefore much more latitude in trade talks to agree to reductions in the allowable trade-distorting support.

This paper reproduced the E.U. notifications relating to 2003/04 and extends these with official statistics to the year 2006/07. It then projects forward the components of domestic support until the year 2013/14, based on forecasts of future production and estimates of policy parameters. The impact of a successful Doha Round is simulated, showing that the constraints envisaged in the WTO draft modalities document of May 19, 2008, would be binding by the year 2013, at about the time the next budget cycle in the E.U. starts. Without the Doha Round constraints, further reform might still happen for domestic reasons, but the framework provided by the WTO for domestic policy spending would be less relevant. In that case, much could hinge on the legitimacy of the Single Farm Payment system under the current rules governing the green box.

Keywords: agricultural support, CAP, WTO Doha Round, notification of domestic support, WTO compliance

1. INTRODUCTION

The notifications of the level of domestic support made by the E.U. (and other countries) to the World Trade Organization (WTO) are intended to monitor domestic farm policy changes. They measure the amount of assistance given by governments to the agricultural sector relative to a country's international commitments. Particular emphasis is placed on the extent to which policy changes have reduced the amount of support given by instruments that are most likely to distort trade. Notifications of domestic support are not intended to reflect the total impact of policies on other countries, nor are they designed to give an indication of the economic costs of farm policies. They monitor compliance with rules that were introduced in a particular context to provide some disciplines for certain types of policy that were deemed to be particularly disruptive of trade.[1] Other parallel disciplines applied to tariffs (elimination of nontariff barriers and binding tariff levels) and export subsidies (binding and reducing both expenditures and quantities of exports benefiting). The domestic support notifications are therefore only one component of a full evaluation of the impact of policy changes on trade patterns, but they are valuable as a measure of the extent to which such changes have moved countries along the path toward policies that have less impact on other countries.

The E.U. has in recent years expanded its membership to 27 countries, substantially reformed its Common Agricultural Policy (CAP), and been the respondent in several challenges in the WTO that involve agricultural products. Current trade negotiations would, if concluded, add further constraints on the CAP. E.U. officials maintain that the reforms of the CAP have significantly reduced its impact on world markets. Both trade negotiations as well as trade litigation have hinged on the relationship between the E.U.'s domestic support commitments and their actual level of support. The calculation of shadow WTO notifications of domestic support, in advance of the official notifications, is thus of considerable interest to other countries as well as of relevance to policy choices at home. Moreover, it is useful to know what is the likely trend in such notifications in the future. Negotiations of further constraints in the WTO can be facilitated by informed, if informal, estimates of policy direction.

The changes in both the composition of the E.U. and the nature of the farm policies provide a challenge for anyone attempting to anticipate future notifications, as major policy changes are introduced over time and unevenly across the E.U. membership. The apparent precision in allocating support to the various "boxes" defined in the Agreement on Agriculture dissipates when faced with staggered implementation of policies by 27 member states. This adds importance to the careful calculation of the level of support under various headings, but also introduces an element of uncertainty. The shadow notifications and their projection into the future described below must be interpreted with this caution in mind.

[1] Further discussion on the interpretation of the WTO's domestic support measures is included in the Introduction to the Conference.

2. DOMESTIC SUPPORT IN THE E.U.

The level of farm support in the E.U. has historically been high relative to that of many other countries. The high level of that support has been criticized by trading partners, as has the nature of the support measures used. The CAP was introduced 45 years ago, when agriculture in the original six member states was still recovering from the devastation of the Second World War. Countries agreed on the need to offer secure markets within the E.U. through protection against imports and the purchase of surplus products for disposal abroad. Import protection was given by means of a levy that varied inversely with world prices (a variable levy) so that imports would enter the domestic market at a predetermined threshold price. On the export side, a subsidy (restitution) was paid that covered the difference between domestic intervention prices (at which supplies were purchased off the domestic market) and the world price.[2] Thus domestic prices were supported at a level that reflected a political decision by the (agricultural) Council of Ministers meeting periodically.[3]

With such a controlled market, the need for internal subsidies was minimal. Domestic (taxpayer-funded) subsidies were the exception rather than the rule, being limited to products of mainly regional importance such as durum wheat and olive oil, to livestock grants paid to hill farmers, and to the crushers of E.U.-grown oilseeds. (The oilseeds subsidy was a contentious scheme that provoked a trade dispute with the United States.)

A succession of reforms in the past 20 years has changed the nature of the CAP and the policy environment in which E.U. agriculture exists. In 1992 a significant change was agreed to that introduced direct payments in compensation for price cuts in cereals and beef, and the support arrangements for oilseeds were revised. These cereal and oilseed payments, based on area grown, represented the first major change in the instrumentalities used by the E.U. to support its farm sector since the 1960s.[4] The reforms reduced the reliance on intervention and the subsequent subsidizing of exports in the cereals market by cutting the domestic support price. The reduction of cereal prices and the consequent decline in the need for export subsidies allowed the E.U. to agree to restrictions on export subsidies in the GATT (General Agreement on Tariffs and Trade) Uruguay Round, as embedded in the Agreement on Agriculture (URAA) and the related country schedules.

Domestic subsidies were also constrained in the URAA, in particular those that were deemed to be most trade distorting. The extent to which these direct payments, related to past output and tied to quantitative restraints, should be disciplined was a major topic for negotiation at the Blair House meeting of November 1992, at which the E.U. and the United States agreed on the main parameters of the URAA. The device of the blue box was introduced at that time as a way of placing the MacSharry compensation payments (and the U.S. deficiency payments) in a category separate from the most trade-distorting subsidies (as measured in the Aggregate Measure of Support (AMS), often loosely called the amber box.)[5] The blue box payments were not subject to reductions, though they had to be limited (for crops, to a fixed area and yield, or paid on 85 percent or less of a base level of production), and support was not to exceed the 1992 levels. Thus the blue box became the way in which the reformed CAP became consistent with the Uruguay Round constraints. The notifications by the E.U. to the WTO reflect this compromise.

[2] Both the threshold price and the intervention price were linked to a target price that was intended to give an acceptable level of farm income. The system described here operated for cereals: Other crops and livestock products had regimes of a broadly similar nature.

[3] Though there is technically only one Council of Ministers, the composition of the council varies with the subject matter under discussion.

[4] The MacSharry reforms also increased, and extended, the range of headage payments for beef farmers, and brought those for sheep and goats into a comparable framework.

[5] As Brink (2006) has pointed out, the term amber box is used inconsistently by commentators, sometimes including and sometimes excluding the de minimis amounts that are not counted in the current total AMS. This paper will avoid the use of the term amber box to avoid adding to the confusion.

3. NOTIFICATIONS OF DOMESTIC SUPPORT, 1995/96–2006/07

The first notification of domestic support by the E.U., in 1995/96, coincided with the final years of the implementation of the MacSharry reforms.[6] Direct payments (the area payments on cereals and oilseeds, and the headage payments on beef and sheep) were placed in the blue box, as they were associated with limits on production. As a result, the original notifications, from the 1995/96 marketing year, included a large AMS component (48 billion euros)[7] and smaller but sizable blue box (21 billion euros) and green box (19 billion euros) payments.[8]

The E.U. last notified its level of domestic support in December 2006. The period covered support up to the 2003/04 marketing year. Table 1 shows the notifications from 1995/96 to 2003/04, together with the "shadow" notifications calculated as described below for the three years since the last notification. The nine notifications from 1995/96 to 2003/04 show a marked reduction in price supports compensated by an increase in direct payments. Current total AMS payments fell from around 48 billion euros in 1995/96 to 31 billion euros in 2003/04, a 35 percent decline. Blue box payments rose over the period, from 21 billion to 25 billion euros, and green box payments rose from 19 billion to 22 billion euros, suggesting that about 7 billion euros in less trade-distorting support has replaced 17 billion euros of more trade-disruptive payments. Table 1 also shows that the shadow notification estimates for the current total AMS are about 26 billion euros in 2006/07, continuing the trend. The blue box estimated notification for the more recent years shows a sharp decline (discussed more fully below) to less than 4 billion euros. Anticipated notification of the green box suggests that this could have risen to nearly 37 billion euros as a result of recent policy developments.

Total domestic support, including AMS, blue box, and green box (and de minimis amounts "used") has declined somewhat from around 90 billion euros in the period after the Uruguay Round to around 70 billion in the past two years.[9] The share of the green box in that total support has increased from 21 percent to 54 percent over the period. The trends in the various categories of support are clear from Figure 1, which also indicates the share of notified support falling in the various categories. The switch from blue box to green box has been accelerating in recent years.

Tables 2–4 show some more detail of the E.U.'s domestic support notifications, extended to bring them up to date. The AMS (Table 2) includes three main categories of support: direct payments that do not fall under the green or blue boxes (nonexempt direct payments); market price support for products for which an administered price exists; and an equivalent measure of support (EMS) for those products where the domestic market is supported but where no obvious administered price exists.[10] These three components make up the product-specific AMS from which an allowance of up to 5 percent of the value of production (de minimis) is deducted. Non-product-specific AMS relates to subsidies that are not confined to one commodity: the E.U. notifies a relatively small amount of such general farm support, and this has always been less than the 5 percent of total value of production allowed as a de minimis amount.[11] The current total AMS is the sum of these components.

The blue box categories are shown in Table 3. The E.U. notifies the payments that go to crop and livestock producers under schemes where eligibility is limited by hectarage of crops or by headage of

[6] The compensation payments were introduced progressively in the marketing years 1993/94–1995/96.

[7] The relevant notification went through a number of revisions and corrections. (G/AG/N/EEC/12 Rev. 1 of September 1999 gave the current AMS as 50.0 billion euros).

[8] No estimate exists of what would have been the AMS notifications before 1995, had they been required. But it is likely that, in the eight years between the 1986–1988 base and 1994/95, trade-distorting support (as measured by the AMS) fell from about 80 billion to 50 billion euros. The MacSharry payments cushioned this by means of the 20 billion euro compensation payments placed in the blue box. Green-box-eligible policies probably rose modestly over the same period.

[9] The total domestic support calculated here is not to be confused with the overall trade-distorting support, a measure under discussion in the Doha Round.

[10] Producer levies are also included as negative subsidies, as has been the case for sugar (B levies) in the E.U. The equivalent measure of support is mainly used for fruits and vegetables, where support is given on a periodic basis.

[11] The two items identified as constituting the non-product-specific AMS are insurance subsidies and interest rate concessions.

livestock. Thus the major items are the crop and oilseed payments based on land under cultivation at the time of the MacSharry reforms. Premia for beef production make up a large proportion of the livestock blue box payments, again reflecting the MacSharry reform process. The reduction in the blue box payments at the end of the period shown in the table indicates the likely notification of the new Single Farm Payments system in the green box.

The green box category itself (Table 4) contains a mix of programs, ostensibly not triggered by price or output. Over time the most significant components of the green box have been investment aids and general services (including program administration). Environmental and regional aids have been expanding recently, reflecting changing emphases in farm spending. However, the most significant change in the green box has been the emergence of "decoupled income support" as a major category of spending (see below).[12]

The nature of the CAP reforms since 1995 is clearly reflected in the notifications of domestic support to the WTO. The "old" CAP did not rely heavily on domestic subsidies: Support was mainly through high internal support prices maintained by import levies and export subsidies.[13] Support prices have been reduced for most of the major products, to close somewhat the gap between E.U. prices and those in world markets. Export subsidies have also been reduced in part as a result of the WTO constraints. The "new" CAP, building on the MacSharry reforms, relies heavily on direct payments to farmers based on past production patterns and is broadly unrelated to current prices and output decisions.

In contrast to the situation in the United States, the level of world prices has had rather little influence on the notified level of domestic support. The base period for the URAA commitments (1986–1988) was a time of low world prices. The low prices were reflected in the level of reference prices that were used to calculate AMS and EMS levels for products with administered prices. As a consequence, base period domestic support payments were relatively high. By 1995, the first year of implementation of the URAA, the situation on world markets had changed. One might have expected a significant drop in support levels. But the high world prices were not fully reflected in the E.U.'s notifications because of the WTO-mandated use of a fixed external reference price when computing levels of support. When world prices dropped in 1998, and stayed low for 3 years, AMS levels in the E.U. also fell. The calculation of the AMS (and EMS) from world prices of 20 years ago illustrates the weakness of these measures as a meaningful reflection of the actual level of support given by administered prices.

The mix of policies in the E.U. changed relatively little from 1995 to 2000, as the reforms in the cereal and oilseed sectors were being assimilated. But budget pressures and the prospect of 10 new members from eastern and central Europe led the E.U. to consider further reforms. These were incorporated in a decision known as the Agenda 2000 reforms that were agreed in 1999. These reforms had a noticeable impact on the E.U. domestic support notifications, maintaining the direction of the 1992 reforms but pushing somewhat further. Intervention prices were reduced by 29 percent for cereals (including a more substantial cut for rice) and, from 2005, they were to be reduced by 15 percent for butter and for skim milk powder, reducing the gap between these "administered" prices and the fixed reference prices.[14] The AMS fell from 48 billion euros in 1999/2000 to 28 billion euros in 2002/03. Changes in the beef regime also modified the notifications somewhat: To the existing subsidies for suckler cows and the special beef premium were added a slaughter premium and some supplementary payments, notified as blue box payments, as they were limited to base levels of livestock numbers. Blue box payments increased by 5 billion euros over this period.

Even more significant in their impact on the E.U.'s domestic support notification have been the reforms enacted since that time, notably the 2003 Fischler reforms, the changes in the regime for the

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[12] In contrast to the United States, in the E.U. domestic food aid is a small fraction of green box spending.

[13] Domestic support notifications are only indirectly influenced by changes in tariffs and in export subsidies. The level of tariffs and the expenditure on export subsidies are not discussed in detail in this paper, though they are of course equally relevant in the assessment of changes in the external implications of E.U. policy toward farm products.

[14] The Agenda 2000 package also agreed on a new dairy premium from 2005, to compensate dairy farmers for the scheduled reductions in butter and skim milk powder intervention prices. In G/AG/N/EEC/17 the E.U. said it intended declaring these payments in the blue box.

Mediterranean crops in 2004, the reform of the sugar policy in 2005, and the reform of the fresh and processed fruit and vegetable policies in 2007. A change in the wine policy is under discussion, and the impact of the likely reform is reflected in our projected notifications for the years beyond 2009. The introduction of a Single Farm Payment, the key ingredient of the 2003 reform (see below), further separates payments from current production. The 2004/05 notification of domestic support will include some of these decoupled payments under the Fischler reforms, those that were made in 2004, but the main impact will be on the notifications from 2005/06 to 2009/10, by which time most of the policy changes should have been implemented.

The nature of the direct payments has also undergone changes with the relaxation of commitments to continue the production of specific products. The Agenda 2000 reforms consolidated payments for cereals and oilseeds, and the Single Farm Payment system incorporates subsidies for most other producers in the same scheme. This again will be reflected in notifications: Many blue box payments become eligible for the green box as they no longer are linked to production. The shadow notifications reported in this paper document this shift.

Table 1. Summary of E.U. domestic support notifications, 1995/96 – 2006/07, million euro

	Notifications									Shadow Notifications		
	1995/96	*1996/97*	*1997/98*	*1998/99*	*1999/2000*	*2000/01*	*2001/02*	*2002/03*	*2003/04*	*2004/05*	*2005/06*	*2006/07*
	€ billion											
Green box	18.7	22.1	18.2	19.2	19.9	21.8	20.7	20.4	22.1	22.1	32.5	36.6
Blue box	20.8	21.5	20.4	20.5	19.8	22.2	23.7	24.7	24.8	24.3	11.0	3.6
Current total AMS	47.5	51.0	50.2	46.7	47.9	43.7	39.3	28.5	30.9	32.9	29.0	25.8
PS de minimis "used"	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.9	0.9
NPS de minimis "used"	0.8	0.7	0.5	0.3	0.3	0.5	0.6	0.9	1.1	1.0	1.0	1.0
Total support	87.9	95.4	89.3	86.7	87.9	88.3	84.2	74.6	78.8	81.2	74.4	67.9
Share of total support												
Green box	21.3%	23.2%	20.3%	22.1%	22.7%	24.8%	24.5%	27.4%	28.0%	27.2%	43.7%	53.9%
Blue box	23.7%	22.6%	22.9%	23.6%	22.5%	25.2%	28.2%	33.2%	31.5%	29.9%	14.8%	5.3%
Current total AMS	54.1%	53.5%	56.2%	53.8%	54.5%	49.5%	46.6%	38.2%	39.2%	40.6%	39.0%	38.0%
De minimis	0.9%	0.8%	0.5%	0.4%	0.3%	0.6%	0.7%	1.3%	1.3%	2.3%	2.5%	2.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
URAA AMS binding	78.7	76.4	74.1	71.8	69.5	67.2	67.2	67.2	67.2	67.2	67.2	67.2
Share of binding	60.4%	66.8%	67.8%	65.1%	68.9%	65.0%	58.5%	42.4%	46.0%	49.1%	43.2%	38.5%

Note: PS de minimis refers to the allowable product-specific support up to 5% of the value of output of that product: NPS de minimis refers to the allowable non-product-specific support up to 5% of the value of agricultural output. Not all the de minimis allowances are "used".

Table 2. Composition of E.U. AMS notification and shadow notification

	Notifications									Shadow Notifications		
	1995/96	*1996/97*	*1997/98*	*1998/99*	*1999/2000*	*2000/01*	*2001/02*	*2002/03*	*2003/04*	*2004/05*	*2005/06*	*2006/07*
	million euro											
Non-exempt direct payments	2,409	2,263	2,210	2,088	2,391	3,062	3,395	4,064	3,848	3,823	3,823	3,823
Market price support and EMS	44,307	48,521	47,775	44,405	45,347	40,262	35,694	24,084	26,283	30,347	26,402	23,224
Sum of PS AMS	46,716	50,783	49,985	46,492	47,738	43,323	39,089	28,147	30,131	34,170	30,225	27,047
Sum of non-de minimis PS AMS	47,526	51,010	50,194	46,683	47,886	43,654	39,281	28,490	30,880	32,944	29,000	25,823
NPS AMS	777	728	486	348	291	538	574	938	1,052	995	995	995
Non-de minimus NPS AMS	-	-	-	-	-	-	-	-	-	-	-	-
Current Total AMS	47,526	51,010	50,194	46,683	47,886	43,654	39,281	28,490	30,880	32,944	29,000	25,823
Total AMS limit	78,670	76,370	74,070	71,760	69,460	67,160	67,160	67,160	67,160	67,160	67,160	67,160

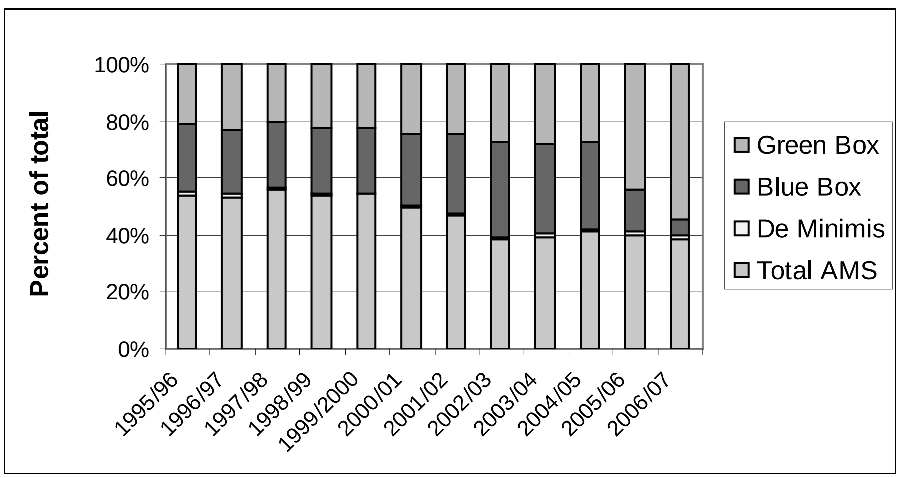
Table 3. Composition of E.U. blue box notifications and shadow notifications

	Notifications									Shadow Notifications		
	1995/96	***1996/97***	***1997/98***	***1998/99***	***1999/2000***	***2000/01***	***2001/02***	***2002/03***	***2003/04***	***2004/05***	***2005/06***	***2006/07***
Payments- fixed area and yields												
Maize payments	973	1,223	1,213	1,182	1,159	1,486	1,614	1,580	1,198	1,222	559	115
Other cereals	8,639	10,001	9,555	9,372	8,842	10,019	10,718	10,184	10,802	9,795	4,481	920
Oilseeds payments	2,381	2,439	2,369	2,264	1,318	1,984	1,846	1,200	1,361	1,388	635	130
Pulses payments	523	525	618	647	524	450	515	474	507	70	65	59
Flaxseeds payments	72	97	129	166	307	113	91	54	70	71	33	7
Set-aside compensation	2,112	1,828	1,251	1,272	1,848	1,527	1,893	1,616	1,843	1,879	860	176
Durum supplements	948	1,081	1,016	993	1,006	1,074	1,242	912	1,113	1,109	505	148
Voluntary set-aside payments							38	58	70			
Silage payments						59	75	74	110	71	33	7
Rice payments			41	81	124	113	113	118		200	92	19
Total crop payments	15,648	17,193	16,191	15,978	15,128	16,825	18,144	16,268	17,074	15,805	7,262	1,580
Livestock payments - fixed number of head												
Suckler cow premium	2,446	2,043	1,695	1,669	1,628	1,777	1,959	2,226	2,092	2,228	1,315	1,234
Special beef and veal premium	1,407	1,239	1,341	1,297	1,299	1,530	1,748	1,946	1,929	2,122	684	98
Slaughter premium						494	1,025	1,719	1,727	1,783	637	360
Beef supplemental payments						148	295	484	489	486	152	1
Deseasonalization premium	23	40	45	24	3							
Ewe and goat premium	1,321	1,007	1,171	1,536	1,734	1,449	554	2,085	1,471	1,837	951	343
Total livestock payments	5,197	4,328	4,252	4,526	4,664	5,398	5,582	8,459	7,708	8,456	3,739	2,036
TOTAL BLUE (notified)	20,846	21,521	20,443	20,504	19,792	22,223	23,726	24,727	24,782	24,262	11,001	3,617

Table 4. Composition of E.U. green box notifications and shadow notifications

	Notifications									Shadow Notifications		
	1995/96	*1996/97*	*1997/98*	*1998/99*	*1999/2000*	*2000/01*	*2001/02*	*2002/03*	*2003/04*	*2004/05*	*2005/06*	*2006/07*
						€ billion						
General services	*5.0*	*6.5*	*5.5*	*5.0*	*6.7*	*4.7*	*5.6*	*5.2*	*5.0*	*5.0*	*5.0*	*5.0*
Public stockholding	-	-	-	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*
Domestic food aid	*0.3*	*0.4*	*0.3*	*0.3*	*0.3*	*0.3*	*0.2*	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*
Decoupled income support	0.2	0.2	0.2	0.1	1.0	0.5	0.2	0.0	0.0	-	10.5	14.5
Income insurance	-	-	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disaster relief	0.3	0.4	0.3	0.2	0.4	0.4	0.4	0.8	0.7	0.7	0.7	0.7
Producer retirement	0.2	1.0	0.6	0.7	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Resource retirement	1.0	1.5	0.3	0.4	0.1	0.5	0.1	0.1	0.1	0.1	0.1	0.1
Investment aids	6.6	5.0	4.9	5.4	2.3	5.9	5.4	5.3	6.8	6.8	6.8	6.8
Environmental payments	2.8	4.2	3.7	5.0	5.5	5.7	5.5	5.0	5.2	5.2	5.2	5.2
Regional assistance	2.3	3.0	2.3	2.0	2.9	3.2	2.4	2.8	3.0	3.0	3.0	3.0
Total green box	**18.7**	**22.1**	**18.2**	**19.2**	**19.9**	**21.9**	**20.7**	**20.4**	**22.1**	**22.1**	**32.5**	**36.6**

Figure 1. Notifications of domestic support, E.U., 1995/96 to 2003/04, with shadow notifications to 2006/07



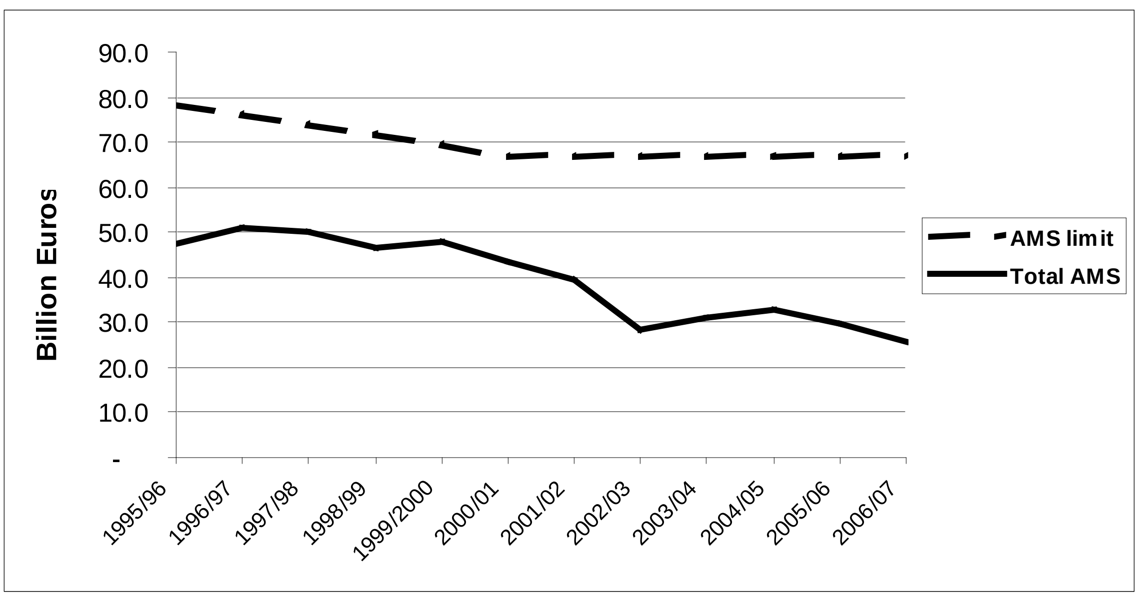
Source: WTO Notifications and authors' calculations

4. CONSISTENCY WITH WTO LIMITS

In the URAA, limits were put on trade-distorting domestic support. In particular, the current total AMS had to be within a ceiling given by the 1986–88 base level reduced over six years by 20 percent. The base period AMS, as calculated by the E.U. (and agreed by other countries), was to be reduced by the year 2000 to 67.2 billion euros. The E.U. (at that time the EU12) declared a base period AMS of 73.53 billion euros, which with a 20 percent reduction would have given an AMS commitment in 2000 equal to 58.82 billion euros. However, a "credit" of 2.38 billion was negotiated, and this led to a final bound AMS of 61.20 billion euros being agreed to (see Supporting Table 9a in the E.U. notification). Enlargement to the EU15 necessitated some changes. The initial AMS figure of 78.7 billion euros mentioned in the text was the EU15 limit in the first year of implementation. The revised final bound AMS was fixed at 67.2 billion euros for the EU15. These commitments continue until a revised set of limits is agreed on, as would be the case if the Doha Round arrived at a conclusion.

Has the E.U. been within the limits set by the Agreement on Agriculture? In part because of the high AMS recorded in the base period and in part as a result of the steady progress of reform, moving away from price support toward direct payments, the E.U. has had no difficulty staying within its constraints. Figure 2 shows the current total AMS in relation to the negotiated AMS limit. In the latest official notification, the AMS stood at 30.9 billion euros, and our shadow notification for the current year shows the level at 25.8 billion euros. Projected notifications as discussed below indicate that one could expect the level of AMS payments to drop by about another 2 billion euros with the full impact of the CAP reform, and to be stable after 2009. The situation gives the E.U. considerable scope for reductions as part of a Doha Round agreement. The implications of such an agreement are considered in a later section.

Figure 2. E.U. notifications of aggregate measure of support (current total AMS) and limit agreed in the Uruguay Round



5. IMPACT OF ENLARGEMENT ON E.U. NOTIFICATIONS

The impact of enlargement, from 15 countries when the first notification was made in 1995/96 to 27 countries at present, poses some unique questions for the calculation of shadow notifications. The previous enlargement was in 1995, when 3 new members (Austria, Finland, and Sweden) joined the E.U. As they were already members during the 1995/96 marketing year, the first notification by the E.U. included all 15 member states. The latest notification is for the EU25, as indicated in a footnote in the E.U.'s submission to the WTO, even though enlargement took place in the middle of the 2003/04 marketing year.

The addition of the production from the 12 new members that joined in 2004 and 2006 increases the AMS (and EMS). This is a side effect of the way in which the AMS is calculated, as production levels of products listed as benefiting from the existence of an administered price would be added in to those of the EU15. The gap between the administered price and the reference price, used for calculating the AMS and EMS, would be multiplied by a larger amount of "eligible production." Our calculations show that the extra production could inflate the AMS and EMS total for all relevant products by 3.7 billion euros (see Table 5). To this can be added the extra green and blue box payments in favor of the new members, though budget allocations for most of these programs were "stretched" over more farmers without any increase in funds.

Table 5. Effect of E.U. enlargement on notified AMS (billion euros)

Notification year	EU15	EU27
2004/05	29.7	30.2
2006/07	18.3	20.9
2008/09	17.0	21.9
2010/11	16.2	19.7
2012/13	16.2	19.9

Source: Authors' calculations

In addition to the increase in the notified AMS from the new members, another consequence of enlargement is of potential significance. This involves the nature of the aggregation of the WTO limits. Most of the 12 new members that have joined the E.U. since 1995 have themselves notified support under the URAA.[15] It would seem likely that the E.U. will be able to add the AMS limits of the new members to the existing limit of 67.2 billion euros. This could add 5.8 billion euros to the AMS ceiling. Butault and Bureau (2006) estimate that these countries had expenditures in 2001 of about 1.5 billion euros, adding significantly to the flexibility of the E.U. in meeting any more stringent obligations that might come from an agreement in the Doha Round. If there is no conclusion to the round, it seems unlikely that other countries will find it worthwhile to examine and challenge the change in the WTO AMS commitment of the E.U. Even if the new members brought none of their preexisting AMS ceilings with them, E.U. current total AMS is still likely to be well below the ceiling agreed for the EU15.

A successful Doha Round that reduced the AMS limit to, say, 30 percent of its current level would potentially restrict the E.U. in its policy decisions (Blandford and Josling, 2007). Under these conditions, one might assume that the additional AMS from new members could be added to the E.U.'s ceiling. But as the AMS from the new 12 members would also be cut by up to 70 percent, the addition to the AMS ceiling might only be 0.45 billion euros, raising the total AMS commitment for the EU27 to

[15] The 10 new members that joined the E.U. in May 2004 were the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia, and Slovakia. Romania and Bulgaria joined in 2007. Of these 12 new members, 4 countries (Estonia, Lithuania, Malta, and Romania) have bound AMS ceilings at zero (Butault and Bureau, 2006). Poland, Hungary, and the Czech Republic have significant AMS ceilings. Hungary is expected to be able to modify its own AMS ceiling to account for inflation before that amount is added to the E.U. limit.

10.5 billion euros.[16] This increased ceiling would be more than offset by the additional AMS that would have been notified as a result using EU27 levels of production. To that extent, the impact of enlargement could be to tighten the restrictiveness of the URAA constraints. The conclusion of a Doha Round might be expected to exacerbate this effect.

The implications of the enlargement of the E.U. from 15 to 27 members are summarized in Table 6.

Table 6. Enlargement impacts on notifications

Issue	Notification of 2003/04 Domestic Support (G/AG/N/EEC/53)	Policy Change	Implications for Notifications
Enlargement of E.U. to EU25 and then to EU27	On page 18 of G/AG/N/EEC/53, the following footnote appears: "This notification covers support to the European Union after enlargement on 1 May 2004. Price gap calculations are performed on EU25 production levels for a 12-month period and include direct payments to 25 member states." It is not clear why the E.U. chose to make an EU25 declaration for 2003/04, given that accession took place on May 1, 2004. A separate footnote declares that the AMS commitment of 67.2 billion euros is "without prejudice to the EC25 commitment to be presented in the new EC25 schedule after enlargement."	Ten new member states were added from May 2004, plus two more from January 2007The 2004/05 notification will cover the EU25. New members have some flexibility in the way they implement the CAP regimes. In addition, they have agreed transitional arrangements for direct payments. A simplified SAPS will apply. However, Malta and Slovenia opted to apply the IACS system in 2004, 2005, and 2006, and shift to the SPS regional model from 2007.	The SAPS will be notified in the green box in the 2004/05 declaration. Increased production (eligible quantities) will show up in current total AMS calculations for 2006/07 to account for Bulgaria and Romania. Blue box payments for Malta and Slovenia will need to be added in the 2004/05, 2005/06, and 2006/07 declarations. There may be some specific payments for new members.

Note: IACS is the Integrated Administration and Control System, SPS is the Single Farm Payment Scheme and, SAPS is the Single Area Payment Scheme. These different ways of administering the direct payments are described in the text.

[16] If the aggregation of the base period AMS for the EU15 and the 12 new members is treated as being the base for the EU27, then the reduction under Falconer's draft would be 70 percent of the total. If the AMS cuts for each new member were to be based on its own AMS in the base period, the reduction could be less, as the new members would not fall in the highest tier of domestic support cuts.

6. REPLICATION OF RECENT NOTIFICATIONS

The most recent notification from the E.U. relates to the 2003/04 marketing year. Any attempt to extend the notifications to 2006/07 and beyond needs to be based on an understanding of the elements that went into the official notification. Two separate aspects of this replication are important. The first is to ensure that the calculations internal to the notification are replicable. In most cases this is simply a matter of arithmetic, applying price gaps to eligible quantities and calculating de minimis exemptions, for instance. The second aspect of replication is to locate the sources of data from which the elements in the notification tables were likely to have been derived.

The format of the notifications is given in the URAA and its implementing documents. The E.U. (along with all countries notifying domestic support) submits a table showing the current total AMS and the agreed AMS limit, together with several supporting tables giving details of the subcategories of the AMS. The structure of these tables is shown in Table 7, below.

The supporting tables for 2003/04 include some specifics of the council regulations that authorize the policies, but only a general reference to data sources. In the case of the green box tables, this reference is to "EAGGF financial reporting 2004 and national sources."[17] The former is readily available, but the latter is difficult to replicate without considerable additional data. Direct payments notified in the blue box are from "EAGGF financial reporting 2004" and hence publicly available. Production values are also from easily available sources, in this case from Eurostat. No data source is recorded for the notification of the product-specific EMS (similar to the product-specific AMS but relating to fruits and vegetables, wine and cotton) or for the non-product-specific AMS. This poses difficulties for the replication of the 2003/04 notification as well as for the calculation of the shadow notifications for more recent years.

Production data in the E.U.'s latest WTO submission (G/AG/N/EEC/53) was checked against other published sources, in particular the online version of *Agriculture in the European Union - Statistical and Economic Information 2006* (accessed at http://ec.europa.eu/agriculture/agrista/2006/table_en/index.htm). In Sheet DS: 5, the 2003 production data in G/AG/N/EEC/53 matched the EU25 2003 production reported in *Agriculture in the European Union* for the main cereals, rice, white sugar ("usable production," excluding C sugar), and olive oil. Data for oats and minor cereals were reported differently, and total cereals production in G/AG/N/EEC/53 appeared to be 2 percent less than in *Agriculture in the European Union*. Butter was 5 percent more, and skim milk powder 4 percent less. For beef, 2003 data for EU25 were not available in *Agriculture in the European Union*.

Among other difficulties encountered in the replication were the different time periods and aggregation levels used by the published E.U. budget documents and those behind the notifications data.[18] This made the process of replication less precise than it might be. But we were able to replicate the 2003/04 notification to a reasonable degree of accuracy.

[17] EAGGF is the European Agricultural Guidance and Guarantee Fund, the part of the E.U. budget that funds the major agricultural programs.

[18] The use of budget data as a way to derive the shadow notifications is discussed in Appendix B.

Table 7. Tables used in notifying domestic support

Table	Contents	Sources
DS:1	Current total AMS and total AMS commitment level	Supporting tables and E.U. Schedule
Supporting Table DS:1	Measures exempt from reduction commitments: green box	Data from EAGGF and national sources
Supporting Table DS:3	Measures exempt from reduction commitments – direct payments under production-limiting programs: blue box	EAGGF financial reports
Supporting Table DS:4	Calculation of current total AMS	Supporting Tables DS:5 to DS:9; production values from Eurostat (or estimated)
Supporting Table DS:5	Product-specific AMS – market price support	E.U. legislation for prices; commission estimates of eligible production; EAGGF for fees and levies
Supporting Table DS:6	Product-specific AMS – nonexempt direct payments	E.U. legislation for prices; commission estimates of eligible production; EAGGF and national sources for fees and levies
Supporting Table DS:7	Product-specific AMS – other product-specific AMS (and total product-specific AMS)	Supporting Tables DS:5 and DS:6
Supporting Table DS:8	Product-specific EMS	E.U. legislation for prices; commission estimates of eligible production; EAGGF and national sources for fees and levies[a]
Supporting Table DS:9	Non-product-specific AMS	No data source shown in notifications

Source: E.U. notifications WTO, 2007)

a No source is given in notifications for price and production levels needed to calculate EMS: It is assumed to be similar to those used to calculate market price support.

7. SHADOW NOTIFICATIONS TO 2006/07

In a perfect world one might expect countries to notify up-to-date domestic support levels, perhaps even with preliminary figures for years where the data is not yet fully available.[19] In the imperfect world of hesitancy about providing estimates that might prove to be useful to other countries, notifications are often delayed and produced only when strategic considerations allow. As a consequence, much of the contemporary value of the notifications is lost. The calculation of careful shadow notifications when governments are tardy can help in promoting transparency and better policy decisions.

Armed with the knowledge of the arithmetic and data sources used to compute the 2003/04 notifications, the extension of these notifications for an extra three years is possible. Figure 1, above, shows graphically the results of this attempt; the notification totals are shown in Table 1. We expect the notification for 2004/05 to be similar to that for the latest notification, with a small increase in the AMS to 32.9 billion euros. The changes in policy agreed to in 2003 will, however, produce a major shift in the notification for 2005/06, as the Single Farm Payment system begins to show up. A significant shift away from the blue box of about 13 billion euros is likely to be notified in 2005/06, and a further shift of 7 billion euros could be notified the next year. A reduction in the calculated AMS also reflects the changes in policy, as some payments that were previously linked to output are shifted to the green box. The green box itself could be notified as high as 36.6 billion euros in 2006/07, an increase of almost 15 billion euros over the 2003/04 notification. By 2006/07 the transformation of the CAP will be well under way, with a further increase in decoupled direct payments and a reduction of those in the blue box and the product-specific AMS expected in the years up to 2013.

[19] Natural lags in data collection will always imply some delay in definitive notifications. But for domestic use, agencies that publish data regularly provide preliminary estimates under such circumstances.

8. THE NOTIFICATION OF DIRECT PAYMENTS

Notification of direct payments, and in particular the Single Farm Payment, is the most critical element of the E.U.'s domestic support notification. However, this notification can cause some problems in the future if the E.U. is asked to account explicitly for its calculations. The difficulty arises from the fact that remnants of the previous direct payments system (stemming from the MacSharry reforms) coexist with the newer payments from the Fischler reforms. The former are still in the blue box, and the latter are presumably headed for the green box. So part of a direct payment may be fully decoupled and part may not be, leading to the question of how the E.U. will notify the expenditure. We have assumed that the expenditure can be split between the blue and green boxes, allocating only that amount paid without reference to production or price to be in the green box. But this requires other countries to go along with the notion that payments can be split up in this way. Without the ability to split the notification of certain subsidies, the E.U. would presumably have to notify all direct payments under the blue box whenever the degree of decoupling was less than 100 percent. That would make any restrictions on the size of payments under the blue box, such as those being discussed in the Doha Round, much more restrictive.

Moreover, countries still have flexibility in the way they operate the direct payments system. The problem stems primarily from the fact that the implementation of the new policy instruments is largely in the hands of the member states. For example, France has retained 25 percent of its national ceiling for arable crops (the total direct payments allowable) to pay as coupled aid—in order to avoid the abandonment of farmland. This is in accord with the flexibility given to members in the 2003 reform. In 2005 France's total IACS payments (i.e., those monitored by the integrated administration and control system) on arable crops was 5,198 million euros.[20] So an amount equal to 1,299.5 million euros was spent by France on coupled support in that year. This latter figure should presumably appear in the blue box in the appropriate notification, and the rest of France's direct payments on arable cropland will appear in the green box. But it remains to be seen whether the E.U. will choose to make 27 such calculations and to amalgamate them into the E.U. notification.

In the shadow notifications reported here, we have allowed for the notification of direct payments to be split between blue and green boxes. The allocation is to a certain extent arbitrary, as there is no convenient way to aggregate up to the E.U. level the actual implementation decisions taken by the 27 members. But the E.U. regulations themselves generally define a limit to the amount of coupled aid that can remain. So the allocation between blue and green boxes in our shadow notifications is based initially on these maximum amounts but assumes also that over time these coupled payments are replaced by decoupled payments as they are incorporated fully into the Single Payment Scheme (SPS).

Another assumption we have made is that all SPS payments are equally eligible for inclusion in the green box. This again is a necessary simplification. Table 8, below, shows the main way in which countries have chosen one of the three methods by which to pay direct decoupled payments. The SPS can either be based on historical yields of the farm concerned or on the average yields of a region. Alternatively, the Single Area Payment Scheme (SAPS) allows countries in the first few years after accession to pay on a uniform basis for all agricultural land qualifying for such payments. In all cases, the national ceiling for such payments is agreed upon at the E.U. level.[21] We make the assumption that the method of calculating the payments per farm is not relevant to the notification of the payment, so long as it is not tied to current production or to price.

[20] See details at http://ec.europa.eu/agriculture/fin/index_en.htm

[21] Some countries have indicated that they will adopt a historic basis in some regions and a regional basis in others. Moreover, there may be changes over time away from a historic toward a regional basis for payments.

Table 8. Implementation of SPS in different member states

SPS Historical	***SPS Regional***	***SAPS***
Austria	Denmark	Cyprus
Belgium	Luxembourg	Lithuania
France	Sweden	Estonia
Greece	Finland	Latvia
Ireland	Germany	Slovakia
Italy	UK (Northern Ireland and England)	Czech Republic
Netherlands	Malta (from 1/1/07)	Hungary
Portugal	Slovenia (from 1/1/07)	Poland
Spain		
UK (Scotland and Wales)		

9. PROJECTIONS OF DOMESTIC SUPPORT NOTIFICATIONS, 2007/08–2013/14

For many purposes it is useful to supplement the shadow notifications that bring such notifications "up to date" by projecting these measures of policy conformity into the future. Such projections require that one make assumptions about policy decisions several years into the future. In the case of the E.U., this involves speculating as to how fast and far the present trend toward decoupled payments and away from price-based support will continue. In addition, one has to make assumptions about the membership of the E.U. in the future, and about its budget decisions. Production levels for the market price support component of the AMS (and EMS) also need to be projected.[22]

With respect to policy assumptions, one can expect a reasonably predictable trajectory in the CAP for the next few years. Discussions of policy change are already under way in the context of the next financial perspective, to be agreed by 2013. The Health Check recently initiated by the E.U. Commission (EU Commission, 2007) suggests a further movement toward decoupling in the interim. If this is agreed by the E.U. ministers, then the projections will gain a degree of certainty. The projections that are shown in Figure 1 and Table 1 indicate a continued growth in green box notifications as more member countries move to the payment of fully decoupled payments. The assumption has been made that policy developments do not involve a departure from current trends.

On the issue of enlargement, three countries are in the "batter's box," awaiting the call to the plate. Croatia and Macedonia could conceivably join in a few years if they are deemed to have adequate internal infrastructure to administer the E.U. policies and are deemed strong enough to participate in the single market.[23] Adjustments to the AMS limit and the support levels of the E.U. would be small as a result of the accession of these two countries. Of much more potential significance is the possibility of Turkish membership. Turkey is a large country with a substantial agricultural sector. The adjustments to the WTO notification of domestic support would be of significance, but there would undoubtedly have to be some significant policy adaptations and a possibly lengthy transition period. Given the political sensitivity of Turkish membership, we have chosen to make the assumption that it will not happen in the period up to 2013.

The Doha Round is at present considering a number of changes to the URAA that would have an impact on the constraints on E.U. policy from WTO obligations. In May 2008 Ambassador Crawford Falconer, the chair of the WTO's Committee on Agriculture, released a revised set of draft modalities for agriculture that included detailed proposals for future disciplines on domestic support (WTO, 2008). The Falconer Revised Draft Modalities paper was an attempt to frame the parameters of such increased restraint so countries could converge on a single document. The E.U. has indicated that it would be willing to accept a conclusion within the range of the Falconer draft, provided that other countries respond with satisfactory offers in other areas.

The Falconer proposals, as they would apply to the E.U., are summarized in Table 9.[24] of that document. The proposals would place a limit on overall trade-distorting support (OTDS). The base period OTDS would comprise the final bound total AMS, 10 percent of the 1995–2000 value of agricultural production (the current de minimis allowances), and the higher of the average blue box payments and 5 percent of the value of agricultural production in the base period. This OTDS limit would be subject to reductions over the implementation period of the agreement. There would also be reductions in the limits for the total AMS from the final values applying under the Uruguay Round Agreement as well as in the de minimis percentages. The blue box would have limits imposed based on the percentage of the value of

[22] Although macroeconomic conditions are also relevant to the policy environment, as indicated earlier the use of fixed reference prices effectively insulates the AMS from these factors.

[23] Other parts of the former Yugoslavia are less likely to be considered for accession within the six-year time frame used here.

[24] For more detail on the impact of the DDA Revised Draft Modalities on the levels of allowable EU domestic support, as well as on market access and export competition, see Jean, Josling and Laborde (2008).

production. Limits would also be imposed on the product-specific AMS and on product-specific blue box support, as described in the table.

The implications for the E.U. of these proposals are summarized in Tables 10 and 11. The base OTDS, from which reductions would be measured, would be 110.3 billion euros. Thus the range for the final bound OTDS would be from 16.5 billion to 27.6 billion euros. This corresponds to an estimate of 24 billion euros for the current total OTDS in the year 2013/14.[25] Thus the more restrictive limit would appear to bind and impose further policy changes of a nature consistent with developments since 2003. The AMS limit would be reduced from the current level of 67.2 billion euros to 20.1 billion euros (augmented minimally by allowance for the enlargement of the E.U.). The estimated current total AMS for the year 2013/14 is 24.1 billion euros, indicating significant restraint on E.U. policies by the year 2013/14. The overall picture is shown in Figure 3. The year 2013/14 is also the start of a new budgetary cycle in the E.U., at which time the funding for the CAP could well be trimmed for internal reasons.

Table 9. Main domestic support provisions of the Revised Draft Modalities (May 2008) as applied to the E.U. (squared brackets indicate alternatives).

Item	Initial Values	Reduction
Overall trade-distorting domestic support (OTDS)	Base OTDS = final bound total AMS + 10% of the value of production in the base period (1995–2000) + average blue box payments in base period[a]	Base level reduction of [75] [85] percent. Initial reduction of 1/3 in first year: remaining reductions in five equal steps
Total aggregate measure of support (AMS)	Base level is final bound total AMS (from Uruguay Round schedules)	Base level reduction of 70 percent. Initial reduction of 25 percent in first year: remaining reductions over five years.
Product-specific AMS	Base level is average of 1995–2000	Base period levels not to be exceeded[b]
De minimis	Base level is 5% of value of production for non-product-specific support and 5% of the value of production of products that receive product-specific support	Reduction of [50] [60] percent [from the start of the implementation period] [in five equal steps].
Blue box		Capped at 2.5% of value of production in base period (1995–2000) applied from start of implementation period.
Product-specific blue box		Product-specific caps at average value in 1995–2000 period[c].
Cotton AMS		Reduced by 74.29% in two years, with a 25% reduction in the first year

Source: Author's summary based on WTO (2008)

[a] Blue Box payments exceeded 5 percent of value of production in base period.

[b] Qualifications apply where product-specific AMS amounts above de minimis levels have been introduced since the base period (para 21) and where the product-specific AMS was below the de minimis level during each year of the base period (para 25). In the former case, the two most recent (notified) AMS levels may be taken as the base: In the latter case, the de minimis level may be used.

[c] Qualifications apply when blue box support was not provided for the whole of the base period (para 41) and where there is a corresponding one-for-one reduction in the AMS for a product (para 43). In the first case the E.U. can use the average of three years blue box payments, and for the second case the "transferred" support may exceed the blue box limit for that product.

[25] In order to examine the impact of these changes on future notifications, we assume that new WTO support commitments are implemented over the period from 2010–2014, so that all new reductions and bindings apply fully in 2014.

Table 10. OTDS, Total AMS, de minimis, and total blue box commitments for the E.U. under WTO Doha Round Revised Draft Modalities (in million euros)

URAA final bound total AMS	67,160.0
Value of production	222,576.5
10% value of production (1995–2000)	22,257.7
5% value of production (1995–2000)	11,128.8
Blue box (in excess of 5% value of production) [a]	20,887.9
Base OTDS	**110,305.6**
OTDS (85% reduction)	**16,545.8**
OTDS (75% reduction)	**27,576.4**
Final Bound Total AMS (70% reduction)	**20,148.00**
AMS/production 1995–2000 [b]	21.5%
Total blue box	
2.5% value of production (1995–2000)	**5,564.41**
Average blue box relative to base OTDS [c]	19%
Cotton	
Base AMS for cotton (million euro)	**752.7**
Cotton AMS reduction (assuming 70% total AMS reduction) [d]	**74.29**

Source: Authors' calculations based on WTO (2008)

[a] Tests for paragraph 1 condition; picks up blue box when above 5% of production value

[b] Tests for application of paragraph 15, less than 40%, additional effort does not apply

[c] Tests for paragraph 39: less than 40%, so no phased reduction allowed

d Application of cotton reduction formula paragraph 55 for AMS

Table 11. Phased reduction of OTDS and AMS, and de minimis limits, E.U., under Revised Draft Modalities

	Immediate	Year 1	Year 2	Year 3	Year 4	Year 5
Reductions						
Proportions of the base OTDS to be cut						
OTDS (85% reduction)[a]	0.33	0.43	0.54	0.64	0.75	0.85
OTDS (75% reduction)[a]	0.33	0.41	0.50	0.58	0.67	0.75
AMS (25% initial; 70% total reduction)[b]	0.25	0.34	0.43	0.52	0.61	0.70
Cotton AMS (25% initial, 74.29% total)[c]	0.25	0.74	0.74	0.74	0.74	0.74
Scheduled limits (in million euros)						
OTDS (85% reduction)	73,904.7	62,432.9	50,961.2	39,489.4	28,017.6	16,545.8
OTDS (75% reduction)	73,904.7	64,639.1	55,373.4	46,107.7	36,842.1	27,576.4
AMS (25% initial; 70% total reduction)	50,370.0	44,325.6	38,281.2	32,236.8	26,192.4	20,148.0
Cotton AMS (25% initial; 74.29% total)[d]	564.6	193.6	193.6			
De minimis						
50% immediate reduction de minimis	2.5%					
60% immediate reduction de minimis	2.0%					
50% phased (5-year) reduction de minimis		4.5%	4.0%	3.5%	3.0%	2.5%
60% phased (5-year) reduction de minimis		4.4%	3.8%	3.2%	2.6%	2.0%

Source: Authors' calculations based on WTO (2008)

[a] Initial reduction of one-third, with remainder phased-in in five equal steps (paragraph 5)

[b] Initial reduction of 25%, with remainder phased-in in five equal steps (paragraph 15) [c] Two-year phase-in period for cotton, with higher total reduction percentage

[d] Implementation period for cotton specified as one-third of the general period.

In order to examine the impact of these changes on future notifications, we assume that new WTO support commitments are implemented over the period 2009–2013, so that all new reductions and bindings apply fully by the notification year 2013/14. Our assumptions about the evolution of agricultural policy in the E.U. apply as above, implying that progressively more of the direct payments can be notified as green box.

The Falconer paper contains a range of reductions in the bindings on the OTDS and cuts in de minimis allowances, as shown in Table 9. Under the larger (more ambitious) cuts for the OTDS, the ceilings for the E.U. fall rapidly over the implementation period of 2009–2013. The anticipated actual OTDS for the EU27 in 2013/14 is 27.1 billion euros, well above the more ambitious OTDS ceiling of 16.5 billion euros. Under the more modest reductions in the agreed bindings on the OTDS in the proposed Falconer modalities and the smaller reduction in the de minimis percentages, the OTDS ceiling (27.6 billion euros) is less binding on the actual OTDS in the E.U. over the implementation period. The E.U. current total AMS is projected to stay within the AMS commitment until the year 2012/13 but exceed the ceiling of 20.1 billion euros by around 4.0 billion euros in 2013/14. By contrast, the blue box limits would be well above the anticipated notification in this category.

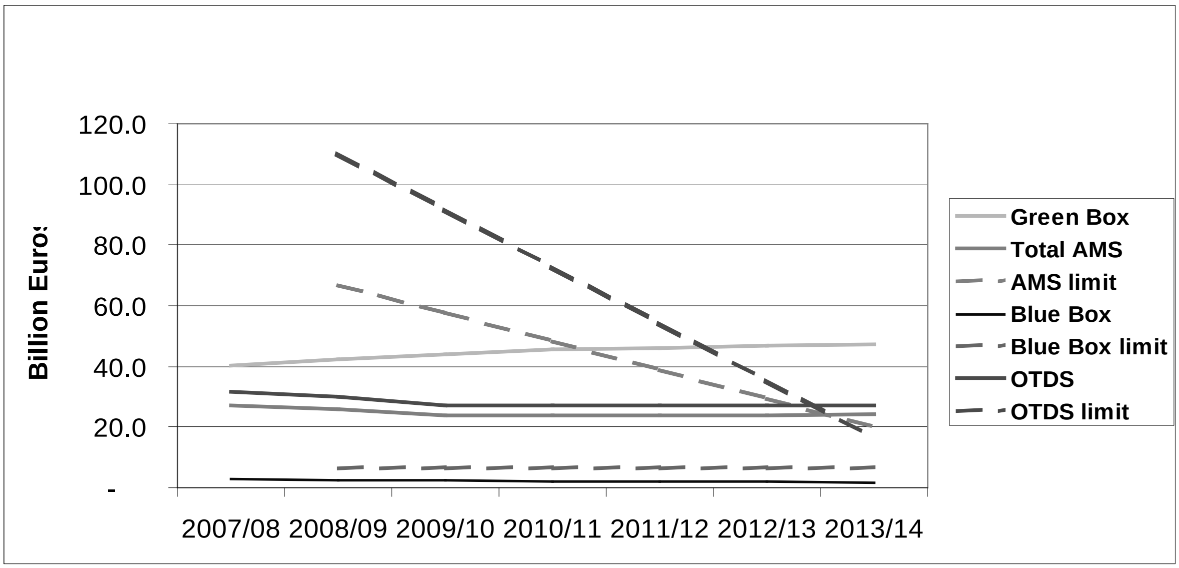
In addition to the constraints on total AMS and blue box support, the revised modalities draft also proposes restrictions on product-specific AMS and blue box amounts. These constraints might well be binding in specific instances. The revised draft suggests caps on product-specific AMS payments at the 1995–2000 levels.[26] Increases in administered prices are effectively restricted by this constraint. Changes in fixed reference prices were not envisaged in the URAA (and apparently not under discussion in the Doha Round) and would presumably have to be negotiated. But variations in the level of "eligible

[26] Some flexibility is included in those cases where the AMS for a product has recently been higher than in the base period.

production" for both the products where the market price support is calculated and for those where an equivalent measure of support is used could well lead to AMS limits being violated.

Blue box limits at a product-specific level are also likely to have some impact. Though the total blue box spending may be decreasing as payments move to the green box, those for individual products cannot increase to make use of that "slack." Although these payments are currently tied to fixed yield, areas, and head of livestock, the restriction implies no possibility of any rebasing of such payments that would violate the limits.

Figure 3. Projected notifications of domestic support, E.U., 2007/08 to 2013/14 and proposed limits to OTDS, AMS, and blue box (higher numbers in draft modalities)



These results should not be interpreted as an indication that the WTO constraints introduced by the Doha Round will not affect E.U. policy. In order to stay within the new limits, changes would have to be made to ensure that direct payments can continue to be notified as green box without being challenged by other countries. However, unlike the situation in the United States, relatively little of the support provided to farmers in the E.U. is subject to increases if market prices fall.

10. ALTERNATIVE SUBSIDY NOTIFICATIONS

So far the discussion has assumed that there is no ambiguity with respect to the allocation of the elements of domestic support into the categories (boxes) of the Agreement on Agriculture. Such ambiguity does exist, and can be potentially important in the context of domestic and trade policy. By estimating "alternative" notifications, it is possible to see the range of ambiguity that exists and hence the scope for circumvention of WTO constraints by governments in the act of notification. Such alternative notifications could be useful to illustrate the result of WTO panel recommendations or the outcome of negotiations.

The main issue that has been raised with respect to the CAP and the WTO notifications has revolved around the direct payments, and more specifically the incorporation of these into a single farm payment. The payments per hectare that were introduced in the MacSharry reforms were notified as blue box because they were limited to historic hectarage eligibilities and based on regional yields. In addition, they were not linked to prices. But the SPS introduced in the Fischler reforms of 2003 was in part intended to move subsidies into the green box, to avoid the constraints imposed on blue box (by its definition) and the AMS (by the constrained expenditures). So the question arises whether the placement of the SPS expenditure in the green box is likely to be controversial.

Several commentators have addressed this issue. Swinbank (2007) and Swinbank and Tranter (2005) raise questions about the extent to which the payments under the SPS are compatible with the green box. They point out that the proposed reforms to the fruit and vegetables regime, making land on which fruit and vegetables are grown eligible for SPS payments, are clearly designed to overcome the problem the United States encountered over upland cotton. But as payments are still made to farmers, annually, on the basis of the land at their disposal, and cross compliance applies, the authors raise the question of whether the scheme does fully meet the criteria of paragraph 6 of the green box.[27] McMahon (2007) points out that the E.U. updated the base for direct payments when the SPS was introduced (from 1989–1991 to 2000–2002), thus making it possible to argue that farmers might anticipate such updating in the future.

Table 12 shows the range of possible notifications under different decisions with respect to the appropriate categorization of direct payments. If all direct payments were to be placed in the green box, that box would grow from 55.2 billion euros in 2007 to 57.9 billion euros in 2013. If all such payments were to be notified as blue box, that box would reach 34 billion euros by 2013. If the direct payments were to be considered as neither green nor blue box compatible (an unlikely event), then the AMS would be notified as between 46.1 billion and 49.2 billion euros, depending on the division between product-specific and non-product-specific AMS categories.

Table 12. Impact of different notification assumptions for direct payments (DPs), E.U. notifications, 2007/08 and 2013/14 (billion euros)

	Notification for 2007/08			**Notification for 2013/14**		
Notification category of DPs	AMS	Blue Box	Green Box	AMS	Blue Box	Green Box
Green box	18.1	0.2	55.2	16.4	0.2	57.9
Blue box	18.1	31.3	22.1	16.4	34.0	22.1
PS/AMS[a]	39.0	0.2	22.1	46.1	0.2	22.1
NPS/AMS[b]	48.2	0.2	22.1	49.2	0.2	22.1
Split notification	18.1	7.3	46.7	16.4	3.2	54.7

Source: Authors' calculations
[a] Product-specific AMS
[b] Non-product-specific AMS

[27] Moreover, they suggest that the E.U.'s contention that the SPS is a decoupled payment would not be enhanced in any DSB case by recent statements from senior members of the E.U.'s policy community suggesting they do affect production (See, for example, Agra Europe's report on the European Parliament's opposition to a 20 percent voluntary rate of modulation, because of fear of distortion of competition between the member states; March 9, 2007: EP/1-2).

Under current WTO constraints, the impact of different notification assumptions is not great. The limit of 67.2 billion euros for the AMS is not approached, and neither blue nor green boxes are limited.[28] However, the situation would be drastically changed if the Doha Round were to be completed. In all cases except where the direct payments are notified in the green box (where no limit exists), the WTO constraints would be violated by the year 2013. If direct payments are notified in the blue box, the total would far exceed the limit of 6.1 billion euros suggested in the Falconer draft. Up to 28 billion euros would have to be notified in the AMS, and this would well exceed the limit of 20.1 billion euros suggested in the same draft. A fortiori, if all the direct payments were to be notified in the AMS, the limit of 20.1 billion euros would again be violated. Perhaps more relevant is the effect on the OTDS of any decision to place direct payments outside the green box. The OTDS limit of 16.5 billion euros suggested by Falconer's more ambitious cuts would be equal to the level of direct payments alone, leaving all other support to be cut or changed to green box compatible payments.

[28] Inclusion in the blue box of new or modified subsidies, however, could be challenged, but these subsidies could be transferred to the AMS without violating the AMS limit.

11. INTERPRETING THE SIGNIFICANCE OF DOMESTIC SUPPORT NOTIFICATIONS

The level of domestic support is only one aspect of the degree to which E.U. agriculture is accorded favorable treatment. Tariffs on agricultural products are generally higher than for nonagricultural goods, and often higher than for many other developed countries for the same agricultural products. In addition, export subsidies help to keep up prices of products surplus to domestic requirements. As mentioned above, domestic support (particularly through direct payments) has therefore become more important as tariff levels have declined and export subsidies have been cut back. But to see the implication of this shift, we need to consider the significance of the particular measure of support that is notified to the WTO and compare this with other measures that can and have been used to monitor support and assistance to the farm sector.

Support to the farm sector, broadly speaking, is composed of direct payments (funded by the taxpayer) and what is usually termed *market price support*. The latter is derived from import protection, intervention buying, and export subsidies. Depending on their characteristics, direct payments will be included in the AMS or in the blue or green boxes. The AMS is the sum of nonexempt direct payments (i.e., those that do not qualify for either the blue or green boxes) and a computed market price support "calculated using the gap between a fixed external reference price and the applied administered price." The market support component of the AMS is therefore an incomplete proxy for the impact of policy. Thus, for milk, the E.U. has only ever declared an AMS based on butter and skim milk powder production, rather than on overall E.U. milk production, presumably because these were the only dairy products for which intervention prices were set. The benefit of the support of dairy products does, of course, find its way back to dairy farmers in the price that they receive for milk.

Not only is the AMS an incomplete measure of support, the method of calculating the AMS can lead to paradoxical results. It was mentioned above that an increase in world market prices does not lead to a reduced AMS, because of the use of a "fixed external price," but there can be circumstances in which high prices result in an increase in the AMS. For example, the recently buoyant prices for butter and skim milk powder, pushing above E.U. support prices, have probably encouraged switching of raw milk supplies into these utilizations. This will have increased the E.U.'s current AMS on these products by increasing the eligible quantity.

In addition, the AMS can overstate the impact of policy change. This can arise as a result of changes in the design of policy. The abolition of an "applied administered price," even though import protection is still in place, can remove the product from the AMS calculation. Thus in the shadow notifications below, we have assumed that the E.U.'s 2003 decision to remove intervention for rye will result in an elimination of the notified AMS for rye, and we expect a similar result for the subsequent decision to eliminate intervention for maize.

12. OTHER SUPPORT ESTIMATES

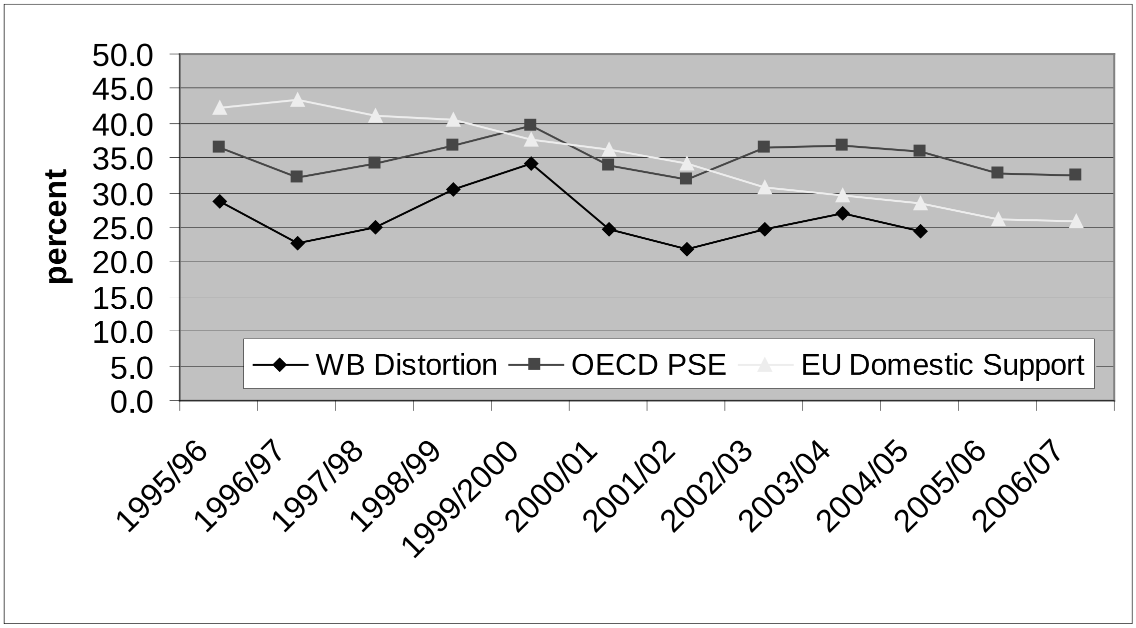
The level of support afforded to E.U. agriculture through the CAP has been the focus of a number of studies over the years. The OECD has been monitoring the agricultural policies of its membership since 1987 and has been reporting annually the producer subsidy equivalent (PSE), more recently relabeled as the producer support estimate. The PSE differs in important ways from the WTO domestic support categories. First, the PSE is more inclusive, accounting for support given through border measures. The market support component of the AMS overlaps with the market price support element of the PSE, but only because administered prices are typically supported by border measures. Second, the PSE uses current price comparisons to arrive at the market price support: the market support part of the AMS (and the EMS) is measured against fixed reference prices. This causes the PSE to respond to world market conditions in a way not observed in the AMS. Third, the measures differ in coverage: The WTO notification covers in principle all agricultural goods, whereas the PSE is calculated on the basis of the most significant products and then aggregated up on the assumption that excluded products are afforded the same protection.

A recent study by the World Bank has estimated some measures of distortion in agricultural policies over the past five decades for a large number of countries. The developed countries of Western Europe were included in this study (Josling, 2007). The distortion measures included the nominal rate of assistance (comparing actual production values to those that would have been in the absence of specific agricultural policies) and relative rates of assistance, comparing distortions in agriculture with those in the rest of the economy. The nominal rate of assistance (NRA) is the closest to the PSE and the AMS measures. Because much of the data since 1987 that was used in the World Bank study was based on the database compiled by the OECD, it is not surprising that the PSE and the NRA are strongly correlated. They differ mainly in product coverage (and the assumptions about noncovered commodities) and in the assumptions about the amount of distortion caused by direct payments.

Figure 4 shows the comparison of the three measures just described. The fact that the level of domestic support as notified to the WTO does not follow the same fluctuations as the PSE and the World Bank's NRA estimate emphasizes the significance of the use of fixed reference prices in establishing the market support component of the AMS. As significant is the fact that the WTO domestic support measure as notified shows a decline that is not apparent in the PSE and the NRA. The reason is that the former largely reflects the way that domestic support is calculated in the WTO notifications. The E.U. domestic support notifications are reduced over time as the AMS (based on an outdated comparison of domestic and world prices) declines. The direct payments, whether partially or fully decoupled, increase but not to the same extent. Indeed, cuts in administered prices can reduce the AMS even if there is no decline in domestic price levels (and hence no switch to direct payments). The PSE and NRA stay high because they reflect the protection given by import tariffs and export subsidies, as well as the direct payments. If there is no substantial improvement in market access or reduction in export subsidies, domestic prices can still stay well above world prices, even if the AMS declines.[29]

[29] One illustration of this difference is in the case of milk. The dairy component of milk support in the AMS includes subsidies implicit in the support of butter and skim milk prices. Apart from the compensation payments for the 2003 reduction of the support prices, no further milk support is included. But the PSE and NRA include large implicit transfers through the higher price of milk that is the (intended) result of price support in the milk products markets.

Figure 4. Comparison of E.U. support measures as percent of value of production



APPENDIX A: POLICY CHANGES AND THE IMPLICATIONS FOR AMBER/BLUE/GREEN BOX CLASSIFICATIONS

This appendix gives more detail on the allocation among the "boxes" of the E.U.'s domestic support for CAP commodity programs. An attempt is made to incorporate recent policy changes and to anticipate the implementation of these changes insofar as they might affect future E.U. domestic support notifications.

The table is organized by commodity and includes all the main products that have undergone reform in the past five years. The second column shows the amount indicated for product-specific domestic support by the E.U. in its latest notification, for 2003/04. The third column indicates in brief the policy changes that have taken place since 2003, in particular those associated with the Fischler reforms.[30] The final column indicates the allocation to the URAA boxes of the amounts of subsidies that have been agreed. Some ambiguity will exist so long as the policies are administered differently in different member states (see text).

Table A.1. Details of CAP reforms and implications for notification of domestic support

Product	2003/04 Domestic Support in G/AG/N/EEC/53	Policy Change	Implications
Cereal and oilseed crops	Old area payments; declared as blue box	Fischler reforms of 2003 created the SPS (to be introduced in 2005 or 2006 depending on the member state), but some coupled payments remain (including supplemental payments for durum wheat), and partial decoupling was allowed.	Switch from blue to green box, starting 2005 (i.e., from 2005/06 declaration)
Rye	Product specific AMS of €243.2 million	Fischler 2003 reforms abolished intervention, effective in the 2004/05 marketing year	Corresponding reduction in the AMS following abolition of the applied administered price
Maize	Product specific AMS of €391 million	June 2007 agreement is to phase out intervention for maize over three years period beginning in 2007/2008. Limit of 1.5 million metric tons in 2007/08, falling to 700,000 metric tons in 2008/09, and then to zero in 2009/10.	See row above on rye. AMS unchanged through 2008/09, then zero.
Rice	Product specific AMS of €420.7 million (price gap of €298.35-143.3 per metric ton **million**); and blue box payments of €110.1 million	Fischler 2003 halved intervention price from 2004/05 marketing year (so AMS price gap becomes €150–143.3 per metric ton) and allows increase in area payments, which are partly bundled into the decoupled SPS, but also include a product-specific payment (supplement).	Sharp reduction in the AMS for 2004/05 Initially a sharp increase in blue box payments (in the 2004/05 declaration), but thereafter mostly switched to the green box (SPS)
Dairy	Product specific AMS for butter (€5,011.8 million) and skim milk powder (SMP) (€1,602.1 million), but nothing for cheese or fresh products For milk, national aid of €230.8 million, but de minimis	Agenda 2000 agreed a staged 15% cut in the intervention price of butter and SMP from 2005. Fischler 2003 brought this forward by one year and increased butter cut to -25%. Introduction of a dairy premium, which the E.U. declared as blue box (G/AG/N/EEC/17). Paid as such in 2004, but included in SPS thereafter (some member states did so from 2005, others from 2006 or 2007).	Staged reduction in butter and SMP AMS from 2004/05 Blue box dairy premium in 2004/05; thereafter phased switch to green box (SPS), with blue payments falling to zero in 2007/08.

[30] For the Fischler 2004 reform, see Corrigendum to Council Regulation (EC) No 864/2004 of April 29, 2004, amending Regulation (EC) No 1782/2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers, and adapting it by reason of the accession of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia, and Slovakia to the European Union (OJ L 161, 30.4.2004) in Official Journal L 206 , 09/06/2004:

http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32004R0864R(01):EN:HTML

Table A.1. Continued

Product	2003/04 Domestic Support in G/AG/N/EEC/53	Policy Change	Implications
Nuts	No support notified for 2003/04	Fischler 2003 creates new aid scheme beginning January 2004. €120.75/ha on 0.8k ha (presumably since expanded for EU25/27) Also, national aid on same land, maximum of another €120.75/ha	From 2004/05 blue box payments: E.U. aid only, maximum of €96.6 million for EU15, Rises to €193.2 million for EU15 if national aid paid as well
Energy crops	—	Fischler 2003 results in new aid scheme from January 2004. €45/ha on 1.5 million ha (raised to 2 million from 2007 to allow for new member states) Area overrun in 2007, and aid paid on only 0.7 of area claimed Likely to be abolished in the "Health Check"	Only 0.31 million hectares claimed in 2004: therefore blue box payments of €13.95 million in 2004/05 Thereafter maximum €67/5 million for 2005/06 and 2006/07 €90 million for 2007/08 and 2008/09 Zero thereafter
Cotton	Product specific EMS of €769.4 million	Fischler 2004 reform, applicable from Jan. 1, 2006. 35% as a direct (blue box) area aid and 65% in the SPS National base area for Greece, 370,000 ha; Spain, 70,000 ha; Portugal, 360 ha Amount of the aid per eligible hectare: Greece, EUR 594 for 300,000 ha and €342.85 for the remaining 70,000 ha; Spain, €1,039; Portugal, €556 Although challenged in the European Court, the policy remains in force.	Switch from amber to blue/green for 2006/07: Blue box: €275 million Green box: €511 million
Sugar	AMS of €5,601.9 million market price support (internal €631.9 million, external €103.8 million, production 13,421 thousand metric tons; *less* producer levy of €277.8 million *and* €8.1 million direct aid in Italy	December 2005 agreement. (i) a staged 36% cut in support price (now known as a reference price). Net of restructuring charge: 2006/07, €505.5 per metric ton 2007/08, €458.1 per metric ton 2008/09, €428.2 per metric ton 2009/10, €404.4 per metric ton (ii) a quota buy-out (and restructuring package), but this hasn't yet removed enough production, and so in 2006/07 the E.U. Commission canceled 2.5 million metric tons of quota iii) SPS: €907 million in 2006/07; and €1,542 million in 2007/08	Staged reduction in AMS (from 2006/07) as a result of (i) 36% cut and (ii) smaller production No blue box payments But increase in green box (AMS) from 2006/07
Tobacco	AMS = nonexempt direct payments of €923.9 million	Fischler 2004 reform: phased (four-year) transition from 2006. Aid based on 2000–2002 payments Full decoupling from 2010, but 50% of the funds will be for restructuring the tobacco sector During the transition at least 40% of the money must be in the SPS. Maximum amounts (million euros) of coupled aid by member state in 2006–09, including the amounts to be transferred to the Community Tobacco Fund: Belgium—€2.374 million Germany—€21.287 million Greece—€227.331 million Spain— €70.599 million France—€48.217 million Italy—€200.821 million Austria—€0.606 million Portugal—€10.161 million Total—€581.4 million	From 2010: Green SPS—€484.5 million Green restructuring—€484.5 million 4-year transition (2006–2009) Blue box—no more than €581.4 million Green box (SPS)—no less than €387.6 million

Table A.1. Continued

Product	2003/04 Domestic Support in G/AG/N/EEC/53	Policy Change	Implications
Bananas	Direct aid of €233.3 million	Agreed December 2006: “The compensatory aid scheme for banana growers, which has been into force since 1993 will be abolished as of 2007 and an additional envelope of €278.8 million will add to the money allocated to the POSEI program, which supports agricultural production in the outermost regions of the E.U. For bananas produced in regions other than the outermost regions, an additional amount of €4.5 million overall will be transferred to the Single Payment Scheme that applies to agricultural products covered by previous reforms. The new rules will apply from 1 January 2007.”	2007: Abolish AMS No blue box All green box
Fresh fruit and vegetables	AMS for products subject to the minimum import price regime: €8,061 million *Plus withdrawals:* cauliflower €2.8 **million** (but *de minimis*), aubergines €0.1 million and “others” €1.5 million	From Jan. 1, 2007, land eligible for SPS payments. “Member States may if they so choose postpone the distribution of fruit and vegetable entitlements for up three years.”	No change (but a Doha deal on tariffs would automatically reduce the AMS)
Processed fruit and vegetables	Citrus: €193.1 million Lemons: €45.5 million Peaches: €11.9 million Plums: €34.6 million* Pears: €15.9 million Figs: €6.0 million* Tomatoes: €315.9 million Grapes: €114.6 *Calculated as production aids or *price support*	Agreed June 2007: “All existing support for processed fruit and vegetables will be decoupled and the national budgetary ceilings for the SPS will be increased. The total amount that will be transferred to the SPS is around €800 million. For tomatoes, member states will be allowed to apply transitional payments for a four-year transitional period (2008–2011), provided that the coupled proportion of the payment does not exceed 50 percent of the national ceiling. For non-annual crops, they will be allowed to apply transitional payments for five years, provided that after 31 December 2010, the coupled proportion does not exceed 75 percent of the national ceiling.”	Eliminates AMS from 2007 €800 million split between blue and green (SPS) boxes
Hops	Area aid: €12.5 million	Fischler 2004, from January 2005. SPS, but can keep 25% coupled (Germany, France, Austria, Slovenia)	AMS zero Max blue box = €3 million
Wine	AMS of €637.8 million: Private storage aid, Distillation, Aids for specific uses	Proposed July 2007: “All the inefficient market support measures—various aids for distillation, private storage aid, export refunds—would be abolished from day one. The addition of sugar to enrich wine—chaptalisation—would be banned, and aid for using must for enrichment, introduced to compensate for the higher cost compared to chaptalisation, would also be abolished. Crisis distillation would be replaced by two crisis management measures, paid for from national financial envelopes. Much more money would go into promoting E.U. wine, particularly on third country markets.” “National financial envelopes:” The overall budget will vary from €634 million in 2009 to €850 million from 2015. The amount available for each country will be calculated according to vine area, production and historical expenditure. Possible measures include “promotion in third countries, vineyard restructuring/conversion, support for green harvest, new crisis management measures, i.e. insurance against natural disasters and the administrative costs of setting-up a sector-specific mutual fund.” “All areas under vines will be eligible for entitlements for the Single Farm Payment,” but apparently with no increase in budget.	If adopted, abolition of wine AMS (from 2008 or 2009), and increase in green box spending (but not SPS).

APPENDIX B: ESTIMATING THE BLUE AND GREEN BOX PAYMENTS, 2004/05–2006/07, FROM BUDGET DATA

This appendix explains the method used to estimate the amounts that will be notified for the three marketing years subsequent to the last official notification. The estimates for the major commodities are based on budget data that is currently available and forward provisions for spending. Exact budget expenditure can deviate from budgeted amounts, but the difference is unlikely to be significant.

E.U. Budget and WTO Notifications

The E.U.'s budget year nominally relates to a calendar year, but actually covers expenditures incurred from October 16 of the previous year to October 15 of the year in question. Consequently, the old arable area payments of crop year *x* were paid in budget year *x* + 1, and this has been carried forward into the new Single Payment Scheme (SPS). Blue box and other domestic support commitments are, however, reported to the WTO on a marketing-year basis. Accordingly, the first payments under the SPS, relating to 2005, were paid in budget year 2006, and will be reported in the E.U.'s green box declaration for 2005/06. Similarly, for the new member states who joined the E.U. in 2004, Single Area Payment Scheme (SAPS) (for eight entrants) and Integrated Administration and Control System (IACS) payments (for two entrants) were first paid in budget year 2005, but will appear in the E.U.'s green and blue box declarations for 2004/05.

Accordingly, the E.U.'s blue box declaration for 2003/04, taken directly from the E.U.'s WTO submission in G/AG/N/EEC/53, can be linked with the items in the E.U.'s 2004 budget outrun.[31] Most of the arable payments are grouped together as a single item in the budget document, so one cannot exactly replicate the WTO submission. However, the livestock payments identified in the 2004 budget outrun match exactly the WTO declaration for 2003/04. The close correspondence between the notified subsidy amounts and the budget numbers allows one to create the likely notifications for 2004/05, 2005/06, 2006/07, and 2007/08. (In the text, these years are referred to as 2004–2007). We have used the Preliminary Draft Budget for 2008 and earlier documents to create the E.U.'s possible blue box, and its "new" green box submissions. The Preliminary Draft Budget differentiates between "decoupled direct aids" (SPS and SAPS) and "other direct aids," which we have assumed will be treated by the E.U. as blue box payments.

For the 2005 budget (i.e., the 2004/05 declaration), we have included the dairy premium, nuts, energy crops, and "other" (discontinued schemes) in the blue box, and assumed the other payments remain in the AMS (but switch to the blue box in subsequent years). The 2005 budget also sees the first payments in the new member states of SAPS. Under SAPS, in 2004 the E.U. paid 25 percent of the full E.U. rate; and the new member states could top up to 55 percent. Assuming they all did so, the E.U. amount spent has to be multiplied by a coefficient of 2.2 in 2004/05 (55/25) to get the full green box spending.

In the old member states, the SPS does not appear in the budget until 2006. However, where partial decoupling applies, the "coupled" portion of the payment is retained in the blue box. Thus in 2006/07 some 84 percent of direct aid would be decoupled (excluding allowance for the modulated funds which have gone elsewhere in the green box).

However, the blue and green box spending amounts for EU27 as calculated from budget data do not correspond exactly to those in Table 4, above. In particular, the budget data give a significantly larger number for the green box payments. Relying on the E.U. Commission's partition of expenditure between the SPS and other direct aids, and allowing for a probable overestimate of the extent to which the new member states will top up the SAPS, might lead to an overestimate of the size of the green box when

[31] Final adoption of the general budget of the European Union for the financial year 2006, Official Journal of the European Communities, L 78, March 15, 2006, recording the outrun for 2004, available in online files at http://ec.europa.eu/budget/publications/budget_en.htm.

using budget data alone. “Modulation,” in effect a tax on all direct payments, with the funds diverted to the Second Pillar of the CAP (rural development), will also reduce blue box and increase green box spending, though this is not included in the Commission’s data. On the other hand, the switch from AMS to blue box compensatory payments may come later than suggested in the estimates reported in this paper if there are any undue delays in the implementation of the policy shift.

The National Ceilings

An alternative (or complementary) way of estimating the allocation of funds between green and blue boxes is to examine the “national ceilings” (sometimes called envelopes) that limit the spending on SPS and other subsidies and the way those funds are used. Each member state’s package of payments is limited to the national ceiling (Appendix II of the basic regulation 1782/2003), and this has been updated periodically to include the new reforms. However, the way in which the direct payments are made is the responsibility of each member state (subject to agreed constraints), as discussed in the text. The Commission has published an overview of how the member states plan to implement the SPS (see the pdf file dated May 2007, “Implementation of the CAP reform in the Member States” at http://ec.europa.eu/agriculture/markets/sfp/index_en.htm#capinfosheets). This gives the date of implementation (e.g., 2005 or 2006), the date the dairy premium is to be included in the SPS, the extent of decoupling, and so forth.

However, in the present context, tracking national expenditure would be time-consuming for the E.U. of 27 members, and the notification to the WTO is in any case the responsibility of the E.U. Commission. So the construction of the notifications on the basis of national data is not attempted here.

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